Killik & Co LLP
Pillar 3 Disclosures

(March 2019)

KILLIK & Co

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Contents

Introduction

Killik & Co LLP is classified as a Limited Licence €50k firm and, as such, is required to comply with the three "Pillars" of the Capital Requirements Directive. These are:

- Pillar 1, which sets out the minimum amount of capital that we need to meet our basic regulatory obligations;
- Pillar 2, which requires us to calculate how much (if any) additional capital we need to maintain to mitigate other prudential risks (e.g. credit risk, market risk and operational risk) that are specific to this firm;
- Pillar 3, which requires us to disclose to market participants key information about our underlying risks, risk management controls and capital position.

The purpose of this document is to meet our obligation in respect of Pillar 3. Killik & Co makes Pillar 3 disclosures on an annual basis, as soon as practicable following the end of our Financial Year. These are provided on our corporate website www.killik.com.

Background

Killik & Co LLP ('Killik & Co') is a limited liability partnership. The principal activity of the LLP is the provision of stockbroking and investment management services to the private client community. Killik & Co LLP reports on a consolidated basis to the FCA and has therefore undertaken the ICAAP and Pillar 3 disclosures on a consolidated basis. However as Killik Intelligent Savings Limited is independently regulated by the FCA its risks have been considered separately in an independent ICAAP. In addition to Killik & Co LLP, the disclosures include the activities of Killik Services Limited. Killik Services Limited acts as a service company providing staff resources and infrastructure to Killik & Co LLP.

Risk management policies and objectives

The Killik & Co Executive Board takes ultimate responsibility for the risks undertaken by the business and risk management objectives and policies are a key driver within the overall business strategy. These policies:

Identify the risks to which the capital of the business is exposed.

- Articulate the acceptable levels of exposure to specific risk types and counterparties
- as well as appropriate risk mitigation tools to utilise, such as insurance cover
- Are appropriate to the size, nature and complexity of transactions entered into by Killik & Co and its counterparties and reflect the quality and sophistication of the Firm's monitoring capabilities, systems and processes.

The Killik & Co Executive Board delegates authority to a specific executive committee (the Killik & Co Risks Committee) which reports on a formal basis to the Executive Board. In addition to the policies outlined above, this requires the Risks Committee to:

- Define the total financial capital the Firm is prepared to place at risk of loss (capital at risk) as distinct from a regulatory authority's imposed minimum capital requirements
- Approve risk limits
- Ensure that the policies and procedures for conducting business are adequate and up to date
- Ensure appropriate internal controls are in place.

Risk management policies are reviewed and approved on a regular basis by the Risks Committee, which must in turn, submit these to the Executive Board for ratification. In doing so, it must take into consideration:

- The Firm's overall business strategy
- Appropriateness as to the size, nature and complexity of transactions entered
- into by the firm
- Quality of internal procedures
- Sophistication of the Firm's monitoring capabilities, systems and processes
- Past experiences and performance
- Regulatory constraints.

Internal Capital Adequacy Assessment Process ('ICAAP')

As mentioned in the background section the Firm has a requirement to carry out internal capital adequacy assessments. Killik & Co has a continuous process of monitoring of its capital resource availability with comprehensive analysis of its capital requirements and risk exposures carried out within the Firm's ICAAP. This document includes a review of the adequacy of the Firm's capital resources for the next 3 years based on its latest financial projections, and considers the risks to which the business is exposed, and for the most significant risks, calculates the effect on capital if they were to materialise. The ICAAP also includes the results of various scenario analyses aimed at assessing the Firm's position under turbulent market conditions. Based on the ICAAP, the Firm expects to have sufficient capital to cover its requirements. The ICAAP is updated annually and reviewed, challenged and approved by the Executive Board of the Firm.

Significant risks and mitigants

Financial risks and uncertainties

There are a number of potential risks and uncertainties in the business which could impact the Firm's long-term performance. The Firm has identified, documented and monitored those risks and it ensures that there are adequate controls in place that mitigate those risks. The Risks Committee meets fortnightly and closely monitors any financial exposures or other risks of the Firm and reports each fortnight to the Executive Board.

Disclosure on potential risks

Killik & Co has undertaken the ICAAP for the year ended March 2019 and has determined the major sources of risk that our Firm faces. These are summarised below along with the mitigants we have in place to manage them.

Risk	Risk description and mitigants
Market risk	Income is substantially transaction driven, and so any reduction in stock market transaction volume levels does impact profitability. Ad Valorem Fees are also affected by a stock market downturn. If profits are reduced partners' remuneration can be reduced to first drawings only, staff cuts could be made and if necessary, Ad Valorem fees could be calculated daily and collected monthly.
Credit risk	Credit risk relates to the Firm's non-trading book assets which haven't been deducted from its capital resources. This is mitigated through continuous monitoring of all debts. In the event of a client default, the Firm has power of sale lien or right of set off against other investments or money on deposit in a client account held by a third party. An overdrawn client position report is produced daily and closely monitored.
Operational risk	This is the risk of loss from inadequate or failed internal processes, people and systems or external events. This is mitigated by regular investment in IT infrastructure and a continuous review of operational controls. Additionally, the Firm holds Professional Indemnity Insurance.
Liquidity risk	The risk of loss from lack of sufficient funds to fulfil financial commitments as they fall due, mitigated by detailed cash flow planning and forecasting. The cash position is reviewed fortnightly by the Executive Board and a buffer of at least £5m is maintained.
Regulatory risk	The risk of non compliance with regulatory or statutory requirements. This is mitigated through continuous emphasis on compliance with all relevant regulation and statutes. A strong compliance culture exists throughout the firm and all staff required to undertake regular compliance training. The Risk Committee meets fortnightly. In additional the firm holds Professional Indemnity Insurance.

Capital resources

Capital is held to ensure that a suitable operating margin is maintained in excess of the higher of Pillar 1 and Pillar 2 capital requirements. Pillar 2 capital requirements are determined using a risk-based approach that explicitly takes into account management's view of specific risk exposures.

Pillar 1 capital requirements are the greater of:

- Base capital requirements of €50,000;or
- The sum of market and credit risk requirements; or
- The Fixed Overhead Requirement.

We have determined that, as at 31 March 2019, the Fixed Overhead Requirement established our Pillar 1 capital requirements.

The LLP's tier 1 capital resources comprises capital contributions from Members. The capital position of the LLP as at 31 March 2019 is set out below:

	£'000
Total Tier 1 Capital after deduction	**12,972**
Total Regulatory Capital	**12,972**
Pillar 1 Minimum Capital Requirement	4,076
Individual Capital Guidance (ICG) issues by FCA	123%
Total Capital Requirement	**5,014**
Surplus	**7,958**
Regulatory Capital Ratio	**259%**

Business strategy integration

The capital management policy of the firm is contained in the Members' Deed, which is effectively the constitution of the firm. This governs how capital is effectively assessed and maintained. The members' deed gives an annual requirement to assess and plan our capital requirements. All subsequent strategy diversions must answer the question of how this affects our capital requirements and this is embedded into the culture of the firm.

Remuneration code

The Killik & Co Executive Board has reviewed and considered the requirements of the FCA Remuneration Code. The Compliance Department has drawn up a policy is this respect and the Board has adopted this.

BIPRU remuneration code staff

We have identified, and maintain a record of, 'BIPRU Remuneration Code Staff' i.e. staff to whom the BIPRU Remuneration Code applies. All members of Killik & Co LLP are considered to be Code Staff.

Decision making process for determining remuneration

Killik & Co LLP does not have a Remuneration Committee. The Executive Committee are responsible for the remuneration policy. All employees are remunerated by a combination of salaries and discretionary bonuses. Salaries are reviewed annually by the Executive Committee with reference to salary surveys, which provide a benchmark for setting appropriate salary levels for individual roles. The ultimate decision to increase salaries rests with the Executive Committee.

Link between performance and remuneration

The members of Killik & Co LLP performing a Controlled Function are entitled to a fixed entitlement which is paid monthly and is included as an expense in the profit and loss account of Killik & Co LLP after arriving at "profit for the financial year before members' remuneration and profit shares". Discretionary amounts due to members in respect of their participation of rights in the profits of the LLP for the financial year are classified as equity until allocation is approved by the members. The allocation to the members of the residual profits for a financial year occurs following the finalisation of the accounts for that period. A members' share in the profit and loss for the year is accounted for as an allocation of profits.

Killik & Co LLP ensures that any measurement of performance used to calculate variable remuneration (i.e. performance bonuses) includes adjustments for all types of current and future risks, referring back to the risk register detailed in the firm's ICAAP document. Any bonus pool calculation takes into account the capital adequacy requirements of Killik & Co LLP to ensure that any bonuses paid do not hinder Killik & Co LLP's ability to meet its capital adequacy requirements under Pillar 1, as well as meeting its liquidity requirement under BIPRU 12 of the FCA handbook.

Remuneration of senior members

This information is confidential to the members of Killik & Co LLP so the information provided below is that which is available in the consolidated statutory accounts of Killik & Co LLP for the year ended 31st March 2019.

	2019
Member's remuneration charged as an expense, including employment and retirement benefit costs	2,783,000

The amount of profit allocation to the member with the largest entitlement is calculated by reference to profit sharing ratios in existence at the year end.